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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-97104; File No. SR-FINRA-2023-004]

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Revise the Research Analyst (Series 86/87) Examination

March 10, 2023

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 28, 2023, the Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. FINRA has designated the proposed rule change as “constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule” under Section 19(b)(3)(A)(i) of the Act³ and Rule 19b-4(f)(1) thereunder,⁴ which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(i).

⁴ 17 CFR 240.19b-4(f)(1).

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing revisions to the content outline and selection specifications for the Research Analyst (Series 86/87) exam program, including a reduction of the number of scored questions on the Series 86 exam. The proposed revisions update the material to incorporate the functions and associated tasks currently performed by a Research Analyst and to reflect the laws, rules, and regulations most relevant to these functions and associated tasks. FINRA is also proposing to make changes to the format of the content outline to reflect these revisions. FINRA is not proposing any textual changes to the By-Laws, Schedules to the By-Laws, or Rules of FINRA.

The revised content outline appears in Exhibit 3a. The Series 86/87 exam selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to Exchange Act Rule 24b-2.⁵

The text of the proposed rule change is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV

⁵ 17 CFR 240.24b-2; FINRA also is proposing corresponding revisions to the Series 86/87 question bank. Based on instruction from the Commission, FINRA is submitting this filing for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(1) thereunder, and FINRA is not filing the question bank for review. See Letter from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation Inc., dated July 24, 2000. The question bank is available for the Commission's review.

below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Section 15A(g)(3) of the Exchange Act⁶ authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. In accordance with this provision, FINRA has developed exams that are designed to establish that persons associated with FINRA members have attained specified levels of competence and knowledge, consistent with applicable registration requirements under FINRA rules. FINRA periodically reviews the content of the exams to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the exams.

FINRA Rule 1220(b)(6) (“Research Analyst”) requires an associated person whose primary job function is to provide investment research and who is primarily responsible for the preparation of the substance of an equity research report,⁷ or whose name appears on an equity research report, to be registered and qualified as a Research Analyst.⁸ An associated person registering as Research Analyst after October 1, 2018, shall, prior to or concurrent with such registration, pass the general knowledge co-requisite Securities Industry Essentials (SIE) Exam and the Series 86/87 exam, or obtain a waiver.⁹ Rather than pass both the Series 86 and Series 87 exams, an associated person may obtain a waiver from the analytical portion (Series 86 exam) upon written request (pursuant to the FINRA Rule 9600 Series) and verification that the applicant has passed:

⁶ 15 U.S.C. 78o-3(g)(3).

⁷ See Rule 2241(a)(11).

⁸ See Rule 1220(b)(6).

⁹ See Rule 1220(b)(6)(B) (“Qualifications”).

- (i) Levels I and II of the CFA Examination; or
- (ii) if the applicant functions as a research analyst who prepares only technical research reports as defined in paragraph (b)(6) of Rule 1220, Levels I and II of the Chartered Market Technician (“CMT”) Examination; and
- (iii) has either functioned as a research analyst continuously since having passed the Level II CFA or CMT Examination or applied for registration as a Research Analyst within two years of having passed the Level II CFA or CMT Examination.¹⁰

FINRA has created Qualification Exam Content Committees to advise FINRA’s Testing and Continuing Education Department regarding the content of all qualification exams.

Committee members are drawn from the industry and self-regulatory organization staff.¹¹ In consultation with the appropriate committee of industry representatives, FINRA recently reviewed the Series 86/87 exam program. As a result of this review, FINRA is proposing to revise the content outline to incorporate the functions and associated tasks currently performed by a Research Analyst and to reflect the laws, rules, and regulations most relevant to these functions and associated tasks. FINRA is also proposing to make changes to the format of the content outline to reflect these revisions.

Current Outline

The current content outline is divided into two parts, with each part divided further into major functions performed by a Research Analyst. The following reflects the two parts, total number of questions associated with each part, and major job functions, including the allocation of questions among the major job functions:

Part I. Series 86 (100 questions):

¹⁰ See Rule 1220(b)(6)(B) (“Qualifications”).

¹¹ More information about the Qualification Exam Content Committees can be found on FINRA’s website at <https://www.finra.org/about/governance/ad-hoc-committees>.

Function 1: Information and Data Collection (10 questions); and

Function 2: Analysis, Modeling and Valuation (90 questions).

Part II. Series 87 (50 questions):

Function 3: Preparation of Research Reports (32 questions); and

Function 4: Dissemination of Information (18 questions).

The current outline describes each function, including specific tasks and activities associated with performing that function. The current outline also includes a preface addressing the purpose, structure, administration and scoring of the exams.

Proposed Revisions

FINRA is proposing to divide the Series 86 exam into three major job functions and to reduce the length of the Series 86 exam from 100 questions to 85 questions. The Series 87 exam will remain divided into two functions with 50 questions total, though the number of questions will be reallocated between the two functions of the Series 87 exam. The following reflects the proposed revisions:

Part I. Series 86 (85 questions):

Function 1: Information and Data Collection (18 questions);

Function 2: Data Verification and Analysis (28 questions); and

Function 3: Valuation and Forecasting (39 questions).

Part II. Series 87 (50 questions):

Function 4: Preparation of Research Reports (36 questions); and

Function 5: Dissemination and Marketing of Information (14 questions).

Each function includes specific tasks describing activities associated with performing that function. There are two tasks (1.1 – 1.2) associated with Function 1; one task (2.1) associated with Function 2; three tasks (3.1 – 3.3) associated with Function 3; two tasks (4.1 – 4.2)

associated with Function 4; and two tasks (5.1 – 5.2) associated with Function 5.¹² For example, one such task (3.3) is “forecast the future valuation of the company and determine any recommendation by identifying key catalysts that may alter the price of a stock and identifying patterns or events (macro, political, or company-specific) that move stock prices and create investment opportunities.”¹³ Further, the content outline lists the knowledge required to perform each function and associated tasks (e.g., characteristics of markets, factors that could impact the perceived risk of an investment, technical analysis, large shareholder exposure, activist investors, valuation considerations).¹⁴ Additionally, where applicable, the content outline lists the laws, rules and regulations a candidate is expected to know to perform each function and associated tasks. These include the applicable FINRA rules (e.g., FINRA Rule 2241) and SEC rules and regulations (e.g., Regulation AC under the Exchange Act).¹⁵ FINRA conducted a job analysis study of Research Analysts,¹⁶ which included the use of a survey, to develop each function and associated tasks and update the required knowledge set forth in the revised content outline. These functions and associated tasks reflect the day-to-day activities of a Research Analyst.

In reviewing the results of the survey and the changes to the tasks and knowledge required to function as a Research Analyst, FINRA believes an 85-question Series 86 exam can sufficiently sample the requisite knowledge domain. FINRA looked at the impact of shorter test forms on key psychometric properties of the test, including decision agreement (the probability

¹² See Exhibit 3a, Outline Pages 3-9.

¹³ See Exhibit 3a, Outline Page 6.

¹⁴ See Exhibit 3a, Outline Pages 3-9.

¹⁵ See Exhibit 3a, Outline Page 7.

¹⁶ FINRA periodically conducts job analysis studies to help ensure exams test current job functions and required knowledge of registered representatives to perform associated tasks. This is an internal process that may include conducting focus panels, consulting with the appropriate committees, or surveying registered representatives to determine current job functions and associated tasks of registered representatives so that FINRA may update exams accordingly.

that the 85-item version of the test and the 100-item version yield the same pass-fail result for a given examinee). The results show that the move to 85-item test forms will have minimal impact on the effectiveness of the Series 86 exam in assessing the level of proficiency required of an entry-level Research Analyst. Therefore, the 85-question Series 86 exam can reliably assess the level of proficiency required of an entry-level Research Analyst. The time given to complete the Series 86 exam will remain at four hours and 30 minutes to continue to ensure candidate performance is not affected by time constraints.¹⁷

As noted above, FINRA is also proposing to revise the content outline to reflect the laws, rules, and regulations most relevant to the functions and associated tasks of a Research Analyst, including incorporating FINRA Rule 5280 (“Trading Ahead of Research Reports”) in the content outline.¹⁸

Finally, FINRA is proposing corresponding changes to the Series 86/87 selection specifications and question bank.

Availability of Content Outline

The current Series 86/87 exam content outline is available on FINRA’s website, at www.finra.org/brokerqualifications/exams. The revised Series 86/87 exam content outline will replace the current content outline on FINRA’s website.

FINRA is filing the proposed rule change for immediate effectiveness. FINRA will announce the implementation date of the proposed rule change in a Regulatory Notice to be

¹⁷ The time given to complete the Series 87 exam will also remain the same, at one hour and 45 minutes.

¹⁸ The proposed revisions to the content outline will also reflect the removal of FINRA Rule 2220 (“Options Communications”) from the content outline because, based on discussions with the appropriate committee of industry representatives, this rule is not relevant to the functions and associated tasks currently performed by Research Analysts.

published following Commission notice of the filing of the proposed rule change for immediate effectiveness.

2. Statutory Basis

FINRA believes that the proposed revisions to the Series 86/87 exam program are consistent with the provisions of Section 15A(b)(6) of the Exchange Act,¹⁹ which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest, and Section 15A(g)(3) of the Exchange Act,²⁰ which authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. FINRA believes that the proposed revisions will further these purposes by updating the exam program to incorporate the functions and associated tasks currently performed by a Research Analyst and to reflect the most relevant laws, rules and regulations covered by the exams.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed revisions will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Exchange Act. The updated exam program aligns with the functions and associated tasks currently performed by Research Analysts and tests knowledge of the most relevant laws, rules, regulations and skills relevant to those functions and tasks. As such, the proposed revisions would make the exams more efficient and effective.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

¹⁹ 15 U.S.C. 78o-3(b)(6).

²⁰ 15 U.S.C. 78o-3(g)(3).

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act²¹ and paragraph (f)(1) of Rule 19b-4 thereunder.²² At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2023-004 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2023-004. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the

²¹ 15 U.S.C. 78s(b)(3)(A).

²² 17 CFR 240.19b-4(f)(1).

submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2023-004 and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²³

J. Matthew DeLesDernier,

Deputy Secretary.

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²³ 17 CFR 200.30-3(a)(12).